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TAGS: ECON EAID EFIN EAGR ETRD ENRG PREL PGOV BG
SUBJECT: AVERTING A CRISIS? BANGLADESH PROVIDES ECONOMIC
STIMULUS

Classified By: Ambassador James F. Moriarty.
Reasons 1.4 (b) and (d)

Summary

¶1. (C) Bangladesh,s Finance Minister unveiled on April 19 a $500 million stimulus package for exporters and others affected by the global economic crisis. More than 40 percent of the program will benefit the agricultural sector; the package also provides fiscal stimulus for exporters and power/energy. In an April 16 meeting with the Ambassador and USAID Mission Director, Finance Minister A.M.A. Muhith also noted the Government of Bangladesh (GOB) planned to significantly expand the energy sector and to require foreign shipping companies to enter partnerships with local firms in order to continue operating in Bangladesh. At first glance, the stimulus package appears to be a reasonable response for an economy that has yet to feel the full effects of the global crisis. GOB plans to force foreign shipping companies, including a U.S. firm, into joint ventures with Bangladeshi shipping concerns, however, represent a step backwards.

A measured stimulus program

¶2. (SBU) The 34 billion taka (approximately $500 million) GOB stimulus package will provide subsidies to the agriculture, energy and export sectors between now and June 30, the end of Bangladesh,s fiscal year. In announcing the stimulus package April 19, Finance Minister Abul Maal Abdul Muhit said this package was the first of a two-phase stimulus program. The GOB plans to unveil the second phase in June as part of its proposed budget for fiscal year 2010. (Note: Bangladesh,s fiscal year runs from July 1 to June 30. End Note.) More than $200 million of the $500 million package will go to the agricultural sector. Jute, leather and frozen food exporters will receive about $65 million. The GOB earmarked another $87 million for power. Noticeably missing from the stimulus package are specific fiscal benefits for Bangladesh,s top export earners, garments and textiles.

¶3. (SBU) The stimulus package also included some monetary initiatives, including changes to certain interest rates and lending policies. The Finance Minister highlighted the recent move by Bangladesh Bank, the central bank, to cap lending rates at 13 percent. Minister Muhit also announced that exporters would receive further preferential treatment, including loans at rate of 7 percent interest. When questioned about the lack of fiscal stimulus for Bangladesh,s powerful garment industry, Muhit noted that these monetary initiatives would benefit the apparel sector. Muhit added that the stimulus package aimed to assist those hardest hit by the global economic crisis. Jute, leather and

frozen food exports have declined sharply in recent months, while garment exports continue to grow, at least for now.

¶4. (C) In an April 16 meeting with the Ambassador and USAID Mission Director, the Finance Minister foreshadowed that currency devaluation would not be part of the stimulus package. According to the minister, the impact of currency devaluation on export industries would be minimal, as many, including the garment sector, were fully &dollarized,8 i.e. the industries pay for inputs in dollars and receive dollars for exports.

Increasing energy production

¶5. (C) During his meeting with the Ambassador, Muhit reiterated GOB intentions to significantly increase energy production in order to meet the country,s power needs. According to Muhit, the GOB plans to expand output capacity from the current 5,600 megawatts to 7,500 megawatts in five years and plans to open 20 gas wells in the next three years. He added that many investors were looking for partners and that the GOB was setting a foreign investment target of 30% by the year 2013. The Ambassador highlighted the ongoing work of, and potential for future cooperation with, Chevron and other U.S. firms in energy and power projects.

Shipping licenses

¶6. (C) The Ambassador inquired whether the GOB had made a decision on the issue of licenses for foreign shipping companies. (Note: The National Board of Revenue (NBR) has delayed renewing the licenses of several foreign firms,

including the American-owned APL, as the GOB mulls changing a practice of allowing foreign shipping firms to operate as 100-percent foreign-owned ventures in Bangladesh. Certain interests in government and in Bangladesh,s shipping sector are pushing to require foreign firms to operate as joint ventures with local partners holding majority shares in the ventures. End Note.) Muhith replied the GOB would likely require all foreign shipping firms to take on local partners, but would not impose any particular threshold of local ownership. Muhith also noted that Bangladesh had no obligation under its membership in the World Trade Organization to open up service sectors like shipping to foreign participation. The Ambassador responded that this change in policy would force up costs for both shipping firms and exporters, including Bangladesh,s lucrative garment industry. Increased costs would hurt shippers and exporters already suffering as a result of the global economic crisis. The Ambassador also added that this move would send the wrong signal to foreign investors about Bangladesh,s respect for the rule of law and overall investment climate.

Comment

¶7. (C) While some quarters, namely garment and textile manufacturers, are criticizing the GOB,s new stimulus package, other economists have expressed cautious optimism. One capital research firm noted that this is a &modest8package, but Bangladesh thus far has only suffered a &modest8 slowdown as a result of the global economic crisis. Others praised the targeted nature of the package, which aims to aid exporters in real trouble and the two areas that are a top priority for the GOB, agriculture and power/energy. GOB officials tell us they intend to fund the fiscal stimulus with savings the government has accrued as a result of falling commodity prices, especially oil.

¶8. (C) The GOB,s apparent decision to force foreign-owned shipping firms into joint ventures is troubling. This appears to be nothing but a rent-seeking exercise, with Bangladesh shipping firms hoping to cash in on the lucrative international shipping business. If implemented, this policy would hurt the Awami League government,s desire to attract

foreign investment in Bangladesh. We will continue to urge the government not to take such a backward step.
MORIARTY